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Irving Trust Company A Charter New York Bank

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Economic Research
& Planning Division

Financial Markets

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Investors seem convinced that inflation and the weak dollar will lead the Federal Reserve and the administration to policies that will include higher interest rates. Despite the reports that Fed Chairman Volcker was returning to Washington ahead of schedule from the International Monetary Fund talks in Belgrade, rumors of a "dollar support package" in the making remained just rumors at week's end. Domestic monetary policy may have been tightened a notch, however, though Fed actions in the Federal funds market were less than conclusive.

The monetary authorities seemed to be signaling a slight increase in the Federal funds target--from 11 1/2% to 11 5/8%--when they provided reserves only grudgingly after letting funds trade at 11 3/4% for a while on Thursday. The reason for further restraint is not hard to find; the latest money supply increases confirm that monetary growth probably exceeded the Fed's short-run target limits again in September. But the value of a marginal 1/8% increase in the funds rates appears doubtful when the markets at home and abroad are awaiting forceful evidence of the credit authorities' anti-inflation resolve. It seems more likely that this week's Fed actions will lead the way toward still greater monetary restraint.

Producer prices rose at a 16.8% annual rate in September, the sharpest increase since 1974. The most rapid increase came in energy prices, but even excluding the surge in energy costs, prices were up at strong double-digit rates. The latest price news and September employment gains clearly reinforce prospects for positive third-quarter growth as well as for more near-term credit restraint from the Fed. Moreover, the worsening inflationary pressures now point to near double-digit inflation in 1980. As the minutes of the August Federal Open Market Committee noted, the projected economic slowdown is "small, and much smaller than that associated with the previous recession," a consideration that will affect the nature of Fed policy in 1980. In particular the Fed is not expected to push rates down aggressively next year, as they did in 1974-1975, when rates fell by 6% or 7%. Instead the policymakers are expected to permit money market rates to move down gradually by perhaps 3%-3 1/2% as credit demand weakens during the recession we expect in the first half of the year.

All in all, it was not the best of times to be selling bonds, and this week's heavy schedule of new offerings generated lackluster retail interest, and many yields reached new highs for the year. In the corporate market, two top quality issues found the going tough. A portion of the $170 million Pacific Northwest Bell issue remained unsold late in the week even though it carried a 10 1/8% coupon price to yield a record 10.2%. And the huge $1 billion IBM offering of notes and debentures (its first public debt offering) fared no better. The issues' scarcity appeal proved insufficient to overcome a rather thin yield premium over similar Treasury securities, and the bonds sold slowly. Two new government issues were also affected. A two-year note was auctioned on Tuesday with an average 10.21% yield, and a four-year note was auctioned Thursday with an average 9.79% yield; both were record highs. In the tax-free markets, prices have been falling recently after bucking the trend to higher rates over the past year or so, though this week's rise in yields was moderate in view of a rather sizable volume of new issue.

Glenn C. Picou

Money Market Rates

Irving Trust Company

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	10/5/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	13.50%	13.50%	9.75
Effective since	9/28/79		
Discount Rate at Federal Reserve Bank	11.00	11.00	8.00
Federal Funds	11.63	11.88	8.75
Repurchase Agreements	11.00	11.15	8.38
U.S. Treasury Issues - Yields			
Bills			
3 months	11.05	10.70	8.45
6 months	11.30	10.84	8.90
1 year	11.25	10.88	8.90
Coupons			
2 years	10.47	10.15	8.70
4 years	9.83	9.64	8.50
7 years	9.65	9.48	8.55
10 years	9.59	9.44	8.60
Long Bond	9.34	9.26	8.65
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.35	11.80	8.83
3 months	12.55	12.00	9.20
6 months	12.80	12.25	9.53
1 year	12.60	11.75	9.83
Bankers' Acceptances			
1 month	12.00	11.90	8.76
3 months	12.35	12.20	8.98
6 months	12.75	12.40	9.08
Eurodollar Deposits			
1 month	12.56	12.25	9.13
2 months	12.94	12.50	9.44
3 months	13.25	12.75	9.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	11.00	8.25
1 month	11.65	11.38	8.60
3 months	11.00	11.00	8.60
Bank Holding Companies			
1 month	11.75	11.60	8.60
Dealer Placed:			
3 months	11.88	11.50	8.64
New Aa Corporate Utility Bond	10.40	10.25	9.20
Tax Exempt			
6 month Project Notes	5.25	5.30	4.20
12 month Project Notes	5.60	5.60	4.60
20 year AAA Bond	6.20	6.15	5.60

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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